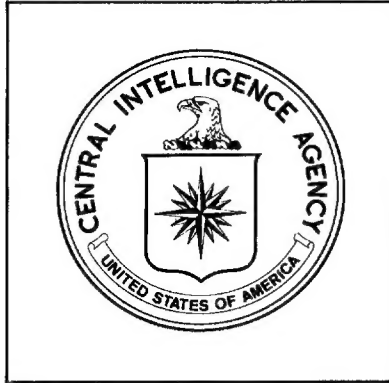


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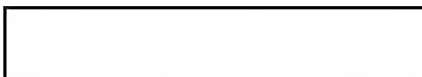
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SOVIET UNION - EASTERN EUROPE

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A Delayed CEMA Summit

Convocation of the delayed CEMA summit continues to slip. [REDACTED]

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Romanian dissent on issues the Soviets apparently want to raise at the meeting has been a factor in the delay, but it is unlikely that Moscow would permit Bucharest's recalcitrance alone to postpone the summit. Heavy travel schedules, preparations for party congresses in Poland and the USSR, and the difficulties of completing plan coordination protocols and trade agreements among the CEMA countries have also contributed to the delays.

The Soviets have circulated a document on CEMA integration [REDACTED] which reportedly has the concurrence of all the East Europeans except the Romanians. [REDACTED] Bucharest is dicker over the document's language on:

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CEMA-EC ties: The Romanians seem agreeable to CEMA-EC negotiations, but reportedly insist that the document specifically mention the right of individual CEMA countries to maintain ties with the EC. The Soviets, who are reluctant to dilute the multilateral approach, probably argue that no reference is necessary because the safeguards are written into the CEMA charter.

CEMA Specialization: The Romanians believe that Soviet-proposed wording would preclude efforts by individual countries to build or expand certain industries. Bucharest has long been concerned that CEMA decisions on specialization that are based solely on economic criteria and taken from a CEMA-wide perspective would favor the more developed CEMA countries and thereby perpetuate Romania's less developed status. As a counter, the Romanians have

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argued--this year and in the past--that they and other less-developed CEMA countries deserve politically-motivated economic assistance to equalize the development of all CEMA members. The Soviets refuse to consider Romania a less-developed country.

Joint Development Projects:

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the Romanians object to allowing the Soviets to have full control of a jointly developed project (and its production) on Soviet territory, even after Moscow has repaid East European development assistance. This, in effect, is a demand that Moscow earmark greater quantities of raw materials from such joint projects for the East Europeans. While this demand is in line with Romanian efforts to get more of certain raw materials from the Soviets, it is inconsistent with Bucharest's view that jointly developed projects on Romanian soil are subject only to Romanian control.

The Romanians may be dissenting on other issues. The Soviets at one time were proposing that CEMA's planning cooperation committee be given increased power to direct other CEMA units and that it be put on a full-time operating schedule. Moscow clearly hopes that such steps--which are aimed at greater efficiency and integration--will counter Romanian delaying tactics within CEMA. Bucharest will resist any institutional changes that have a supranational ring and ideally would like to perpetuate a creaky, inefficient CEMA structure.

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It is more likely that any other East European dissent would focus on specific economic proposals by Moscow. [redacted] said that the summit would make "particularly important" decisions in agricultural as well as the raw material sectors. All the East Europeans, of course, are eager to get further Soviet assurances on long-term deliveries of raw materials, but it is not likely that this overall issue can be--or is intended to be--resolved before a CEMA summit. Any Soviet effort to seek even partial solutions in these or other sensitive areas could further delay a CEMA summit.

[redacted]

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Czechoslovakia: The "Lessons" Live

Several recent articles in the Czechoslovak press throw cold water on hopes that the coming 15th party congress might take a softer line toward ostracized reformers of the Dubcek era.

The articles are part of the activity commemorating the fifth anniversary of "Lessons," a Central Committee document approved in December 1970. Inasmuch as they stress the continuing validity of "Lessons," the press commentaries suggest that the congress will not make a dramatic gesture toward national reconciliation by providing a way to rehabilitate large numbers of the ostracized reformers.

The regime's defense of the document is not surprising. "Lessons" was intended to serve as both a post mortem of "what went wrong" in 1968 and an apologia for the restoration of rigidly orthodox Communist rule. Moreover, the document rationalized the roles that several of the present leaders played during the reform era. It also exonerated the system by blaming the Novotny and Dubcek regimes for making the party vulnerable to the "rightist" onslaught.

The commentaries point out that political settlement of the crisis was possible without resorting to "sectarian approaches which aggrandized the significance of administrative coercive approaches." They also stress the "differentiated" case-by-case approach to rehabilitation that party chief and president Husak reportedly favors. Although the articles thus suggest that the "moderates" scored a victory, selective rehabilitation falls considerably short of what many emigres had hoped for.

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Yugoslavia: Tito Concerned Over
Downward Economic Drift

In a hard-hitting speech on December 11, Tito scored the Party Presidium for failing to fully implement the economic stabilization program for 1975. Tito hinted that even stronger restraining measures might be taken in 1976.

Tito expressed concern about the festering problems of inflation, unemployment, and the large hard-currency trade deficit. In the first nine months of 1975, consumer prices were up 24 percent over the year before, unemployment 20 percent, and the hard-currency trade deficit 12 percent.

Industrial growth has fallen to 6 percent from 11 percent in 1974, and a mediocre harvest will probably mean there will be little growth in agriculture this year. Economic growth already has slowed sharply --we expect gross national product to increase approximately 3 percent in 1975 compared with 6 percent in 1974.

The slowdown in industrial growth reflects a decline in both domestic demand and Western demand for Yugoslav exports. Shortages of some imported raw materials and intermediate products, as a result of the selective import restrictions imposed during 1975, are other contributing factors. The tobacco, food processing, and printing industries were hardest hit by the import restrictions. Production cutbacks are also likely to occur soon in those industries where large inventories have accumulated--for example, in the textile, electric appliance, and furniture industries.

Export growth has stagnated because of the Western recession and the impact of domestic inflation on the competitiveness of Yugoslav goods in

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Western markets. Remittances expected from workers abroad and receipts from tourism will fall far short of overcoming the trade deficit, leaving a current account deficit of about \$1 billion for 1975.

Yugoslavia's foreign exchange reserves declined from \$1.3 billion in February 1975 to about \$1 billion in October--the lowest since early 1973--as balance-of-payments pressures have mounted. These reserves are the equivalent of only one and a half month's imports from the convertible currency area. The Yugoslavs may be forced to draw reserves down even further by the end of the year because of increasing difficulties in obtaining credit in the West.

A basic problem with economic policy in Yugoslavia is the structure of the system. There is no mechanism for insuring full implementation of federal decisions at the republic or enterprise level. Instead, Belgrade must rely on the regional party and mass organizations to provide coordination and direction for Yugoslav policy at those levels.

The 1976 plan, now being hotly debated at the republic level, calls for another round of stabilization measures. Under the plan, import controls are to be continued, stronger measures taken to regulate investment spending, and stricter criteria established for price increases.

The federal government is being criticized in some republics for making key economic decisions that constitutionally belong to the republics. Tito, nevertheless, told the party leaders that the cabinet is acting properly and that it is the republics which are mainly at fault for the economic situation.

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ANNEX

Yugoslavia: The Cominformist Threat
and Soviet-Yugoslav Relations

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Belgrade's policy toward Moscow since the discovery of the plots has followed a zigzag course. The Yugoslavs, from Tito on down, are very worried that Soviet intentions toward post-Tito Yugoslavia are less than benign, but there are realistic limits to Yugoslavia's current options. Tito seems to be gambling for time--and a reversal of Soviet fortunes. Meanwhile, he is preparing his people to fight, if necessary, to keep Moscow out.

Tito's Rude Awakening

Soviet willingness to take risks in Yugoslavia became apparent, in Belgrade's eyes, after the first Cominformist arrests in April 1974. Clearly, the Yugoslavs were caught off stride. From 1972 to early 1974, Tito had conducted a major reorientation of his diplomacy. One of his principal goals was to establish a durable working arrangement that would assure a friendly and cooperative Soviet Union during the transition in Yugoslavia. Even as the first arrests were made and the thread of pro-Soviet subversion began to unwind, Tito gave his personal assurances to suspicious Yugoslavs that we have nothing to fear from the East.

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Embittered by what he regards as Kremlin treachery, Tito threatened subsequently to lay out the details of the conspiracy and let the chips fall where they would. He has, however, found weighty reasons for avoiding a frontal conflict with Moscow. The major inhibition is that the loosening of Western political cohesion seriously limits the credibility of his traditional policy of leaning Westward for support when Moscow is most threatening.

Covering All Bets

Tito's actions thus amount to a minor modification of the pickpocket diplomacy Yugoslavia has followed since the end of World War II. Underlying all his tactical maneuvers, however, is his sincere and abiding determination to ensure Yugoslavia's autonomy and independent role in the world, whatever happens after his death.

Against an array of conditions favoring Moscow, Tito has made a number of moves that seem at first glance to be at cross purposes. He has, for example, courted the West and the Chinese in an effort to re-establish the solid political understandings that might be necessary if Moscow begins overtly to interfere in Yugoslav affairs. This crash program has not been altogether successful. The arrangement of major arms deals in the West and the normalization of party relations with Peking continue to slip through his fingers. Furthermore, his appeals for economic concessions are not reaping many returns in a period of slow economic recovery in the West.

Even as he seeks to expand contacts with the West and China, Tito is insisting that Yugoslavia wants good relations with Moscow. He sees to it that bilateral economic relations are in good order and that Soviet arms shipments to Yugoslavia are maintained, and he will continue to do so until Yugoslavia's economic and military dependency on the USSR

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eases. The Soviets presumably play the game because the economic and military hardware deals provide them continuing entree into Yugoslavia and because they do not want to present opportunities to their rivals in the West.

Belgrade has nimbly evaded differences with Moscow that might cause the USSR to reassess its policy of overt friendship for the Tito regime. The Yugoslavs, for example, do not openly question Moscow's post-Helsinki maneuvers in the Middle East, despite Tito's policy of support for Sadat and the Sinai II accords. Belgrade also continues, despite its judgment that the MPLA is politically rigid and excessively dependent on Moscow, to support the Soviet-backed faction in the Angolan Civil War.

Belgrade is concerned that Yugoslavia could willy-nilly become the next testing ground for Soviet-Western contention. The Chinese are warning whomever will listen that Europe--and specifically Yugoslavia--is an irresistible attraction for Soviet expansion. Some Western newspapers are also concentrating on the Soviet threat to Yugoslavia. While Tito is no longer inclined to pronounce the Soviets free of ulterior motives in their policy toward Yugoslavia, neither is he happy about efforts to heighten the tension. He certainly does not want Moscow to conclude that Western or Chinese influence is on the rise in Belgrade.

Bricks for Brezhnev

Belgrade thus faces the precarious task of balancing the need to increase internal vigilance against pro-Soviet machinations while avoiding an open breach with Moscow and maintaining balanced ties with the other great powers. The Yugoslav regime's complex maneuverings have not cloaked its paramount need for redefining at home the fact that Yugoslav and Soviet interests are in large measure

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antagonistic and competitive. Yugoslav media for over a year have been gradually building ideological indictments of the Soviet system and holding up to scorn the sycophantic activities of Moscow's loyalist allies in East Europe.

Yugoslav challenges to Moscow tend to aim--like any good partisan tactics--at weak points, and Belgrade avoids unnecessary contests in areas where Soviet reactions would be strongest. Belgrade's improved relations with China, its stubborn obstruction to Soviet goals in the Communist movement, and its regular sniping at the Soviets' still-unresolved attitudes toward the Stalin era are all part of Tito's strategy. In addition, the Yugoslavs have advanced a new ideological heresy, heralding revolutionary socialist construction in Third World countries--not the Soviet "model"--as the wave of the future.

The Yugoslav media are telling their readers that both the Soviet system and its client regimes in East Europe have their share of problems. Belgrade stops short of publicly accusing Moscow of economic imperialism in East Europe, but there is a strong resurgence of Yugoslav propaganda about the common interests of all the smaller European states in assuring that the great powers do not run their affairs.

Playing it by Ear

Tito is clearly not tying his policy toward Moscow to any single scenario for world events. Instead, ad hoc decisions, based on Yugoslav perceptions of a Soviet threat, seem to be the controlling

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factor in current Yugoslav foreign policy. Issues and events whose development are likely to influence future tactics include:

- The results of the Soviet party congress next February.
- The outcome of Moscow's current involvement in Angola and the potential impact on the Soviet leadership.
- Soviet economic prospects and continued willingness to expand cooperation with Yugoslavia, without imposing too high a political price tag.
- The speed of the economic recovery in the West and the result of efforts to restore political stability in the southern tier of NATO.

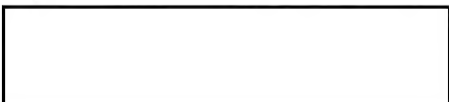
The short-run prospect is for even more turbulence in Soviet-Yugoslav relations. Meantime, Tito will probably continue to waltz around the central issue of Soviet intentions toward post-Tito Yugoslavia as long as the Soviets are cooperative in state-to-state contacts and tolerate his efforts to isolate the pro-Soviet "fifth-column."

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